

## New tax credits & other incentives for savers

The Economic Growth and Tax Relief Reconciliation Act (EGTRRA), became effective in 2002. It offers some new and some improved benefits for your PERSI Choice Plan 401(k) and other savings. These benefits include contribution limit increases, changes to rules for hardship withdrawals, easier rollovers between plans, a new catch-up provision for members who are at least 50 years of age, and a tax credit for lower income employees.

### Tax Credit May Reduce Your Federal Income Tax Dollar For Dollar

If you make contributions to the Choice Plan 401(k), you may be eligible for a federal tax credit, called a "saver's credit." This credit could reduce the federal income tax you pay dollar-for-dollar. The amount of the credit you can get is based on the contributions you make and your credit rate. The credit rate can be as low as 10% or as high as 50%, depending on your adjusted gross income – the lower your income, the higher the credit rate. The credit rate also depends on your filing status.

The maximum contribution taken into account for the credit for an individual is \$2,000. If you are married filing jointly, the maximum contribution taken into account for the credit is \$2,000 each for

you and your spouse.

The credit is available if you are 18 or older, are not a full-time student, are not claimed as a dependent on someone else's return, and have an adjusted gross income (shown on your tax return for the year of the credit) that does not exceed:

- \$50,000 if you are married filing jointly
- \$37,500 if you are a head of a household with a qualifying person, or
- \$25,000 if you are single or married filing separately.

The annual contribution eligible for the credit may be reduced by any taxable distributions from the Choice Plan that you or your spouse receive 1) during the year you claim the credit, 2) during the two preceding years, or 3) during the period after the end of the year for which you claim the credit and before the due date for your return for that year. A distribution from a Roth IRA that is not rolled over is taken into account for this reduction, even if the distribution is not taxable. After these reductions, the maximum annual contribution eligible for the credit per person is \$2,000.

The amount of your saver's credit will not change the amount of your

refundable tax credits. A refundable tax credit, such as the earned income credit or the refundable amount of your child tax credit, is an amount that you would receive as a refund even if you did not otherwise owe any taxes.

The amount of your saver's credit in any year cannot exceed the amount of tax that you would otherwise pay (not counting any refundable credits or the adoption credit) in any year. If your tax liability is reduced to zero because of other nonrefundable credits, such as the Hope Scholarship Credit, then you will not be entitled to the saver's credit.

### Contribution Limit Increases

The annual limits for voluntary contributions to 457, 403(b) and 401(k) plans have been increased to \$11,000 for 2002, and will increase by \$1,000 each year until the limits reach \$15,000 in 2006. After that date, limits will then be adjusted for inflation annually in \$500 increments.

You may now contribute 1 - 100% of your income to the Choice Plan 401(k) as long as you don't exceed the \$11,000 limit.

The coordination of 457 deferrals with 401(k) or 403(b) deferrals has been eliminated. This means

Incentives for savers continued from front

that if you are deferring to a 457 plan and a 401(k) plan OR a 457 Plan and a 403(b) plan, you may, in most cases, contribute \$11,000 to each plan. **The coordination between 401(k) and 403(b) plans still exists; therefore, you are limited to total contributions of \$11,000 between both plans.**

The Choice Plan Salary Reduction Agreement form has been revised and is available from our website at [www.persi.state.id.us](http://www.persi.state.id.us).

NEW CONTRIBUTION LIMITS

If you Contribute to	2002 Maximum
401(k) only	\$11,000
457 only	\$11,000
403(b) only	\$11,000
401(k) and 457	\$22,000
403(b) and 457	\$22,000
401(k) and 403(b)	\$11,000

Hardship Distributions

In the past, if you took a hardship distribution, you were prohibited from making 401(k) contributions for 12 months. EGTRRA shortens this suspension to six months.

Rollovers into the PERSI Choice Plan Expanded

In the past, you were able to rollover distributions from other qualified plans and conduit IRAs. Now, if you have a "distributable event" such as termination of employment, you may also rollover most distributions from 457 and 403(b) plans, and from pretax IRAs (not just conduit IRAs).

If you die, your surviving spouse may make a tax-free rollover from the Choice Plan 401(k) to another 401(k) plan, a 403(b) plan, a 457 plan or an IRA.

If you roll money from a 457 plan into a 401(k) plan, that money will take on the attributes of 401(k) money, and the 10% penalty for early withdrawal will be applicable.

Rollovers out of the PERSI Choice Plan

Rollovers out of the Choice Plan 401(k) into 457 and 403(b) plans or to pretax IRAs are also now allowed if you terminate work, retire or take an in-service age 59 1/2 or rollover withdrawal. You must check first whether or not your 457 or 403(b) plan will accept rollovers.

Inservice Purchase of Base Plan Service

Funds from the Choice Plan or 403(b) and 457 plans may now be transferred while you are still working to the PERSI Base Plan for the repayment of separation benefits, waiting periods or delinquent contributions.

Catch-up Provision

Once you turn age 50, you may be eligible to make catch-up contributions to your Choice Plan. To be treated as "catch-up eligible" you must be age 50 or older by the end of the calendar year in which you make catch-up contributions, regardless of whether or not you terminate prior to your 50<sup>th</sup> birthday. The additional catch-up contribution is \$1,000 in 2002, and will increase in \$1,000

increments until 2006, after which it will be indexed. This means that in 2002, if you are age 50, you could contribute \$12,000 into the Choice Plan.

You may take advantage of the 401(k) or 403(b) catch-up provisions even if you are planning to use the catch-up with your 457 plan. For a 457, the catch-up amount has been changed to equal twice the regular 457 elective deferral limit. It is available during the last three years before normal retirement.

IRA Contribution Increases

EGTRRA increases the amounts you may contribute to traditional and Roth IRAs. The amount will increase from \$2,000 in 2001 to \$5,000 in 2008 on a phased-in basis as follows.

Year	IRA Limit
2002-2004	\$3,000
2005 - 2007	\$4,000
2008	\$5,000

After 2008, the limit will be adjusted annually for inflation in \$500 increments.

Sunset Provision

EGTRRA contains a "sunset" provision that calls for a return to prior laws in 2011. Unless this provision is repealed before that time, the catch-up provision, higher limits, and tax credits will no longer be available. Therefore, this is a good opportunity to increase your contributions, save on taxes and better prepare yourself for retirement.